Income Distribution Becomes More Unequal

Income inequality in the U.S. has been increasing since the 1980s, but this trend has accelerated, according to the most recent data available. In Mississippi, the increase has been particularly dramatic: from 1999 to 2005, the real income of the top 20% of families increased 23%, while that of the bottom 20% fell 8.5%, as shown in Table 4. In contrast, the U.S. growth rate of incomes in the top 20% was 9%, although the top 5% saw a 15% increase (column 4). [To improve accuracy, the figures for average real income in 2005 shown here are post-federal tax averages of Census data for 2004, 2005 and 2006, and are adjusted for family size and government transfers, except for publicly-financed health care.]

In fact, Mississippi experienced the greatest increase in income inequality between the top and bottom quintiles of any state. Only New York and Alabama had a greater inequality between these two quintiles than did Mississippi, where the average real income at the top was 8.27 times that at the bottom. The top 20% of families here receive 45.9% of total Mississippi income, a higher percentage than is true of the U.S. as a whole where the comparable figure is 43.3%.

At the same time, the average income in Mississippi is below that of the U.S. for every income group. The smallest gap is at the top, and the largest at the bottom two quintiles. The top 5% here have incomes equal to 93% of the U.S. level on average, and the top 20% are at 89% of the U.S. average. The bottom quintile average is 78% of the corresponding U.S. figure, and the next 20% is at 75%.

These numbers are analyzed by Bernstein et al. of the Economic Policy Institute and the Center on Budget and Policy Priorities. Their study finds that the growing inequality is largely due to growing wage inequality, although federal tax reductions have also favored those at higher income levels. The authors offer several possible steps towards reversing this growing inequality that range from bolstering social safety nets, such as unemployment benefits and the earned income tax credit, through tax reform and early childhood education/child care, to improved institutional decision-making processes at both the national and state levels.

As an aside, the authors address income mobility, presenting figures that show that 70% of households in the bottom fifth in 2001 were still there two years later. They also cite a 2007 study showing that among children who started at the bottom, most (58%) were not there 35 years later, although income mobility was found to be considerably lower among blacks than among whites.
somewhat higher than in the U.S. as a whole, as shown in Table 3. The difference between the rates in Mississippi and the U.S. will not be that great, and the slowdown from the economic pace set in 2007 will be very marked. While the U.S. economy has been flirting with recession since the start of the year, the numbers for Mississippi have been buoyed by spending related to the rebuilding of the coast, and talk of recession in the state postponed until recently as a result. Nonetheless, employment in the state in Q1 apart from the two coastal MSAs was virtually unchanged from a year ago, and key economic indicators, as discussed above, have been declining.

The forecast, shown in Table 2, is that real gross state product (GSP) in 2008 will grow a modest 1.6%, followed by a similar growth rate in 2009 before the recovery bumps the rate up to 2.3% in 2010 and a slightly higher rate in 2011. This prediction is based on the May national forecast of Global Insight, Inc. presented in the previous article. More favorable developments in energy prices, the housing market, or productivity growth could improve these numbers.

Inflation is predicted to remain at about 2.0% over the coming three years, as measured by the GSP deflator, based on the assumption that oil prices will fall gradually starting later this year and will remain below $100 per barrel thereafter. Consumer prices, which have been rising at a 3.6% rate in the South in 2008, are expected to grow at a more manageable 2.1% in 2009 and 1.9% in 2010. The state unemployment rate, which was 6.3% in 2007, will rise to 6.4% as the growth of payrolls drops to about 0.4% this year. Employment growth will gradually pick up over the coming year, and by 2010 the growth rate of employment will increase to 1.0% and by 2011, to 1.1%.

Trends in personal income lag employment trends, as downward pressure on wages from the slack labor market reduces wage gains. Personal incomes are forecast to grow 4.1% this year, a rate comparable to that